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Markham, Charles Henry

Co-ordination of railroads, waterways and highways

[Chicago?]

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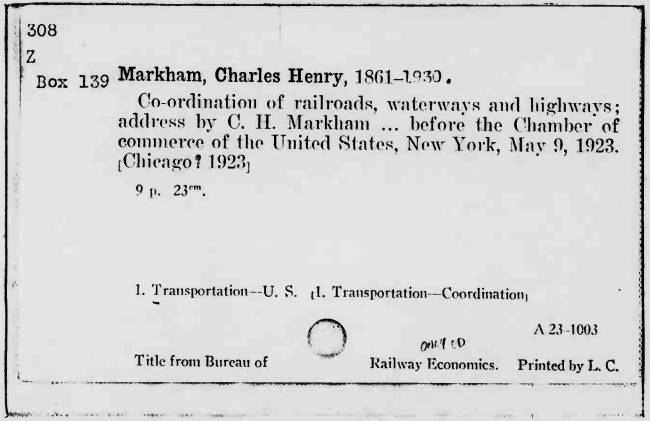

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Co-ordination of Railroads, Waterways and Highways

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Address by
C. H. MARKHAM
President, Illinois Central System

Before the
CHAMBER OF COMMERCE OF THE UNITED STATES
New York, May 9, 1923

CO-ORDINATION is the antithesis of competition. Competition in transportation is desirable between railroads, between boat lines, or between motor vehicle carriers on a basis of service, but competition between the railroads and a form of transportation that is sustained by subsidy is not desirable. It does not profit users of transportation as a whole, and it is inimical to the development of our national system of transportation on a sound economic basis.

Proper co-ordination of transportation demands that the service be performed in each instance by that means which can render it most economically, all elements of cost considered, due allowance being made for speed, dependability and other factors. We need a definite, constructive policy under which expenditures for the development of railroads, waterways and highways for the use of motor vehicles as common carriers shall be concentrated where physical and commercial conditions are favorable to the development of each form of transportation. The railroads are so regulated. Before a new line of railroad can be built, or an old line abandoned, the facts must be presented to the Interstate Commerce Commission and its authority obtained. Such regulation should apply to expenditures for other forms of transportation; haphazard spending, without a definite plan, is wasteful and harmful.

TO AVOID PAST MISTAKES

SINCE there never is for any considerable time actual competition between water and rail carriers or between highway and rail carriers—as one or the other, when they are pitted against each other, takes practically all of the business—our national transportation policy should be, not to foster competition between one means of transportation and another, but to foster co-ordinated development that will enable all means of transportation to work together to give all sections of the country the best, most adequate and cheapest service possible. Such a policy would avoid the wasteful mistakes of the past and promote the sound development of a national system of transportation. That is what we should be working for.

Public thought on this subject is sometimes confused by our neglect to consider as part of the cost of furnishing these other forms of service the expenditures made out of public funds upon the construction and maintenance of navigable waterways and hard-surfaced highways. The taxpayers' money that is expended upon inland waterways and highways is a part of the cost of the service provided by boat lines and motor vehicle carriers, just as the money spent upon their roadways is a part of the cost of the service provided by the railroads. The only difference at present is that railroads pay for the construction and maintenance of their roadways and have to charge rates to cover that expense, while taxpayers foot the bills for providing navigable channels and hard roads, and boat lines and motor vehicle companies consequently do not have to include such costs in the rates they charge. As competitors they have an unfair advantage over the railroads. In determining the true economy of transportation by waterway and by highway due consideration must be given to all items of cost, including the cost of navigable channels and the cost of suitable highways, however paid for.

RAILWAY TAXES CLIMBING

THE subsidy of competing forms of transportation from funds raised by taxation works a particular

injustice upon patrons of the railroads. The taxes paid by Class I railroads last year amounted to more than $300,000,000, as compared with less than $100,000,000 in 1911. The railroads have no other source of revenue, hence the funds to meet their tax bills have to come out of the purses of their patrons—those who pay freight and passenger rates. Supporting competitive transportation upon an artificial basis by means of taxation at the expense of the railroads and their patrons is false economy.

Consider the cost of hard-surfaced roads that are ground to powder under the wheels of heavily loaded motor vehicles that are permitted to compete with the railroads in carrier service. Between 1910 and 1922 more than $3,000,000,000 was expended upon the construction and maintenance of good roads. The operators of motor vehicle carriers contributed comparatively little to the costs of providing these highways, but they are doing more than any other agency to wear them out. Someone might say that the highways are a facility for the free use of the entire public; that they will be maintained, and replaced when worn out, regardless of their use by freight- and passenger-carrying vehicles; and that to make the operators of motor vehicle carriers pay more for their construction and upkeep than anyone else would be unfair. That point of view fails to consider the greater destructiveness of the heavily loaded vehicles that are used in commercial transportation.

We should not continue to blindfold ourselves to the facts developed by the experiences which we have already had in the construction and use of hard-surfaced highways. Most of the hard-surfaced highways that are being constructed throughout the country primarily for the use of pleasure vehicles and other light traffic, such as ordinary farm vehicles, are not strong enough to stand up under the shock of heavy motor truck traffic. The operators of truck lines could not afford to pay a fair share of the damage caused to these light roads by their operations. It is equally clear that the taxpayers cannot afford to have themselves taxed to build these light roads, which are not intended for heavy truck service, and then permit them to be damaged by that service.

BUILD SHORT ROADS FOR TRUCKS

THE only practicable solution of this question, in my opinion, is the construction of comparatively short stretches of hard-surfaced roads designed and designated primarily for the use of motor trucks. These roads should, of course, be constructed only where commercial and other conditions are favorable to the use of trucks in transporting goods for short distances and where the saving as compared with rail transportation is sufficiently large to justify the extensive expenditures necessary to provide the kind of highways that can be used by such vehicles.

Motor trucks are well suited for performing transportation service in congested terminal areas where their expedited service from door to door gives them an advantage over the railroads in both speed and operating costs. In this field of service, which is a large one, I look for the use of motor vehicles to develop rapidly. The railroads cannot hope to compete for such business, and I believe most railway men will heartily welcome this development, for it will help to relieve the roads of their burdensome and unprofitable short haul traffic.

The railroads are not opposed to the building of good roads elsewhere than for the use of trucks in congested centers. It is to the public interest (and whatever is to the public interest is beneficial to the railroads) that our highways be extended as fully as economic conditions will justify. However, it is not to the interest of the railroads nor to the permanent interest of anyone else that motor vehicles operated for commercial purposes shall tear up roads built by public funds without paying a fair share of their costs. The railroads are not unfriendly to the use of motor vehicles for transportation wherever their use can be justified as economical and practicable, all things considered. My only point is that it is inimical to the public welfare to develop motor vehicle transportation upon a subsidized basis at the expense of the patrons of the unsubsidized railroads.

THE MISSISSIPPI EXPERIMENT

I AM not opposed to water transportation wherever it can be justified on the basis of economy and practicability. In order to assist in determining the advisability of using the lower Mississippi River the Illinois Central System has co-operated heartily with the officials of the War Department in the experiment which they have been making since 1918. If the experiment should eventually prove the wisdom of using the river for transportation, we believe the Illinois Central System ought not to be barred by law from putting boats on the river and operating them in conjunction with its services by rail. That would be carrying out both the spirit and the letter of co-ordination.

The waterway and highway carriers can well afford to profit from the lesson taught by the history of railway regulation. If there had not been abuses in the railway business that the managements themselves ought to have corrected, restrictive regulation would never have developed to the point that it did in the last generation. For the advocates of waterway and highway transportation to take an advanced position on this question would head off in advance the agitators whose predecessors did so much to bait the railroads and arrest their efficient development.

A prominent advocate of waterways recently declared in a letter to me that the land grants made for the building of some of our railroads constitute a subsidy comparable to the subsidy of water and highway transportation. He asserted that the railroads are inconsistent in accepting a subsidy favorable to them and then taking a no-subsidy attitude when there is nothing for them to gain. The point would be well taken if the premise were correct, but it is not.

Special reference was made by this gentleman to the Illinois Central land grant. The Government lands received by the Illinois Central in 1851 through the state of Illinois amounted to 2,595,133 acres. The lands had been held by the Government at $1.25 an acre, with few buyers. As in the case of other land grants to railroads, alternate sections were ceded through the territory of the proposed railroad, and the price of the remaining sections was advanced from $1.25 to $2.50 an acre. The building of the Illinois Central Railroad opened up central Illinois for development, with the result that the Government actually gained in the transaction by having a ready market upon which to sell its remaining lands at the advanced price.

CHARTER TAX ON EARNINGS

THE charter of the Illinois Central provides that the railroad shall pay into the state treasury annually a special tax of 7 per cent of the gross earnings of its charter lines. Up to the end of 1922, the charter tax on gross earnings had amounted to $54,380,586.35. This tax was in lieu of other taxes. A careful comparison between our charter tax and taxes paid on our non-charter lines in Illinois justifies the statement that, if our charter lines had been subject to general taxation and not subject to the charter tax, general taxes up to the end of 1922 would have amounted to something less than $23,500,000. That is a liberal estimate.

As further compensation for the lands received, the Illinois Central, by reason of being a land grant railroad,

is required to perform freight, passenger and mail transportation service for the United States Government on its charter lines at reduced rates. Rates for mail transportation are 80 per cent and for freight and passenger transportation performed for the Government are 50 per cent of stipulated rates. Up to the end of 1922 reductions to the Government on freight, passenger and mail transportation service performed on our charter lines in Illinois amounted to $6,844,553. Adding this to the difference between our charter tax payments and a liberal estimate of what general taxation would have been gives a sum of around $37,725,000.

The lands received from the Government could have been purchased in 1851 at $1.25 an acre. Their market value, therefore, was about $3,250,000. In other words, the lands have already cost the railroad about $34,500,000 more than they would have cost if purchased outright. Moreover, both the charter tax and the provision with respect to reductions on transportation service furnished the Government go on in perpetuity. This certainly shows that the granting of Government lands to the Illinois Central does not constitute a subsidy comparable to the subsidy of water and highway transportation.

RESTRICTIONS SHOULD BE COMPARABLE

THE co-ordination of our railroads, waterways and highways demands that the three forms of transportation be surrounded with comparable restrictions as to rates, service and safety to the public. This applies particularly to the present chaotic condition of motor vehicle operations in many states. Fewer than half of the states regulate motor vehicle carriers at all. To allow motor vehicle transportation operated strictly as a public utility to run without regulation in competition with a railway service that is closely regulated is not only opposed to the American spirit of fair play, but is detrimental to the maintenance of adequate railway service, which the public must have at any cost.

A good deal of agitation in behalf of waterways is based upon the plea that they must be developed to relieve the railroads of the surplus of a load that has become too great for them to handle effectively. It is true that the railroads in recent years have not been able at all times to furnish promptly all the transportation service desired, but the development of competitive waterways would not solve the problem.

From 1902 to 1922 the freight traffic of Class I railroads increased more than 100 per cent, while their first track mileage increased only about 25 per cent. This gives some idea of the possibilities of developing railway capacity through the building of larger cars and more powerful locomotives, the construction of additional trackage, the enlargement of terminals, the reduction of grades, and so on. The efficiency of operation also is a contributing factor. In 1922 Class I railroads handled a freight traffic nearly 20 per cent greater than in 1914 with an actual decrease in freight train miles of nearly 11 per cent. However, great as has been the progress made to date, we have only scratched the surface. Under constructive treatment by the public the railroads have the capacity for practically unlimited development. The growth of our railroads in recent years has been arrested by inadequate earnings. To correct the condition we must not make further inroads upon their earnings, but permit them to realize a net income that will be attractive to the investors who must furnish the new capital for expansion and development. If we are not misled into adopting an unwise national railway policy, we need have no fear about the railroads' being able to furnish their full share of the Nation's transportation service in the future.

DECIDE CASE ON ITS MERITS

THIS does not mean that I would exclude the waterways from a place in the national system of transportation—only that I believe the case of the waterways should be decided purely upon its merits.

The volume of traffic handled by the railroads since the first of the year has been greater than ever before at this season. During the first three months of the year revenue car loadings amounted to 11,330,423 cars, exceeding by more than 13 per cent the number loaded in the corresponding period of 1922. For some time car loadings have been running at the rate of more than 900,000 cars a week, a peak that ordinarily is not reached until the rush of fall business sets in. Production is proceeding at a high rate, prices of farm products are holding up well, unemployment has practically disappeared, and all other yardsticks indicate that business has been recovering the confidence lost during the 2-year depression.

Aside from the vital service they perform, which is the very foundation of commerce, the railroads make an important contribution to prosperity through their purchases of the products of other industry. Under normal conditions they consume 28 per cent of the bituminous coal produced in this country, 25 per cent of the steel, 18 per cent of the timber and lumber, and large quantities of other materials and supplies. They furnish employment to about 5 per cent of the working population. One of the factors contributing to the present period of prosperity is that the railroads last year had the confidence in the fairness of the public to place large orders with equipment manufacturers and lay plans for other extensive expenditures upon equipment and facilities. Since the first of last year the individual railroads have authorized expenditures aggregating $1,540,000,000 for cars, locomotives, additional trackage and other facilities. They have purchased 223,616 freight cars, of which 117,280 have been delivered and placed in service, and 106,336 are under contract for delivery during 1923. They have purchased 4,219 new locomotives, of which 2,106 have been delivered and placed in service, and 2,113 are under contract for delivery during 1923. During 1922 they expended for new trackage and other facilities a total of $195,000,000, and expenditures authorized for 1923 include $425,000,000 for new trackage and other facilities. The expenditures already made and those contemplated contribute to the prosperity of the industries of all kinds which supply the railroads and furnish employment at good wages for many thousands of workers. In addition, the railroads have adopted a program for locomotive and freight car equipment repairs which will keep railway shop forces busy this summer, and that adds to the country's prosperity.

A FAIR RETURN PROTECTS THE PUBLIC

THE public, therefore, has a direct interest in enabling the railroads to realize a fair return upon their investment. Funds for expenditures upon the railway plant come principally from capital which must be raised in the open market in competition with other forms of investment. Capital is timid, and severe restriction of railway earnings has in the past frightened large numbers of investors into forsaking railway securities for investments promising greater security of a larger return, the result being that new railway financing practically stopped. Confidence in railway investments is being restored, as the program of expenditures now being carried out indicates, and it is of the utmost importance that the public's attitude toward letting the railroads earn a fair return justify the returning faith of investors.

In the Transportation Act we have

all the legal machinery necessary for a wise solution of the problem of the railroads. From time to time there is agitation for the repeal of the act, or of such portions of it as are not fully understood and appreciated by a number of people. So far the Transportation Act has not had a fair trial under normal conditions, except perhaps in the last few months, which have been approaching normal. We need an opportunity to test out the law fully under normal conditions before making any changes in it.

CANNOT ESCAPE COST OF SERVICE

ALL the costs of railway operation must be paid if we are to have continued railway service and maintain the railroads of the country as going concerns. Even if we should turn to Government ownership or adopt a policy of subsidizing railway transportation, the costs still would have to be paid, and they would have to come out of taxes—so, in any event, the problem of meeting those costs is one that we have to face. Business men are opposed to Government ownership of the railroads, and, unless we have Government ownership or some form of subsidy, the costs of railway operation must be paid through adequate freight and passenger rates. The only way to bring rates down without impairing the railroads is to reduce costs. The development of economies in transportation is the problem of the railway managers, and that they are giving their attention to that problem is indicated in the fact that in 1922 Class I railroads carried a freight traffic about 9 per cent greater than in 1921 with an increase in their revenues of only about eight-tenths of 1 per cent, withstood the increased cost of railway fuel and increased taxes, suffered from two great national strikes, and at the same time increased their net operating income from a return of 3.08 per cent upon property investment in 1921 to 3.82 per cent in 1922. By reason of rate reductions made, the average receipts of the railroads for each ton of freight carried one mile dropped from 1.275 cents in 1921 to 1.176 cents in 1922, or nearly 8 per cent. This represents a saving to freight shippers of around $336,000,000—that is, if the traffic of 1922 had been carried at the average rate prevailing in 1921, the cost to shippers would have been greater by about $336,000,000. As the railroads recover their financial standing, and as further progress is made in economies, freight and passenger rates can be still further reduced. However, the present scale of rates should remain in force until such time as reductions can be made without incurring the hazard of wrecking the railway machinery of the country.

One of the most encouraging features of the railway situation is the evidence that state legislation designed to impose restrictive operating conditions upon the railroads, increase their expenses or limit their income is becoming unpopular. That is good news for business men, farmers, and all other classes of our population. In the state legislatures of the Middle West of which I have knowledge not a piece of antagonistic legislation has been passed this season. For example, take the states of Wisconsin, Iowa and Minnesota, the homes of Senators LaFollette, Brookhart and Shipstead. These legislatures were flooded with the usual number of proposed measures hostile to the railroads and expensive to railway patrons. The legislatures of Iowa and Minnesota have adjourned without enacting any legislation especially inimical to the railroads. Thus far none of the hostile measures introduced in Wisconsin has been passed, and we are hopeful that none will be passed. I believe that condition is a result of the public's awakened desire for fair treatment of the railroads.

Public opinion is a powerful force in controlling the railroads. In the past it has at times been antagonistic, and the country has suffered as a result. Railway managements are largely responsible for that because of their failure to correct the abuses that existed within the railway business, and they also failed by neglecting to present to the public from time to time the essential facts about their business. I believe that those conditions are rapidly passing away. Abuses have been or are being corrected, and our present system of regulation effectively prevents their recurrence. Railway men are coming more and more to realize the need of having public opinion well informed on the railway question, and many of them are using the means at hand to promote a constructive attitude toward the railroads. Since a sound and enduring solution of the railway problem is so essential to the welfare of all of us, it is a problem for business men and all others to be concerned about. The duty of helping to create an intelligent, constructive public opinion about the railroads rests upon leaders among business men, farmers, and men in public life as much as upon railway managers, for all will suffer in the resulting disaster if such a public opinion is not created.

More than any other human agency, the railroads have made possible the development of our civilization. It remains for us, who are the beneficiaries of this legacy from another generation, to safeguard and transmit to posterity an unimpaired, efficient railway system that will prove capable of the tasks expected of it in the future.

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